Flawed arguments claim charter hinders CU competitiveness.

The Torturous Road to Truth

Bill Hampel

There's an adage that if subjected to enough torture, a set of numbers can be made to tell any story. But as even Jack Bauer of television's "24" knows, torture doesn't always result in truth. A good example is a recent article by Peter Duffy published by the Credit Union Executives Society. Duffy is employed by a firm that receives fees from credit union conversions to thrift or bank charters.

Here in brief is Duffy's argument: Credit unions are so hobbled by a regulatory disadvantage, an "unlevel playing field" if you will, they can't effectively compete with banks. He says passage of the Credit Union Regulatory Improvements Act (CURIA) could solve this problem, but the need is acute and CURIA is taking way too much time. Although Duffy doesn't explicitly close the deal, the reader is left to reach the obvious conclusion that credit unions anxious to compete on a level playing field might want to consider a charter conversion.

Before turning to Duffy's data escapades, a few words on his premise. There's a lot of truth to what he says. Credit unions indeed are saddled with a more restrictive legislative and regulatory environment than banks are. Unnecessary restrictions on fields of membership and business lending, and too-high capital requirements stunt growth and limit credit unions' ability to serve members. That's precisely why the movement has put so much effort into passage of CURIA.

But credit unions also have huge advantages over banking institutions from their cooperative, not-for-profit structure. Financially, this manifests itself in two ways: 1) Credit unions aren't under the gun to pay dividends to stockholders by maximizing profits; and 2) the federal tax exemption. Although we shouldn't rest until CURIA's major components are passed, in the interim members still benefit enormously by doing business with a credit union compared with a banking institution.

This brings us to Duffy's data analysis. He makes the counterintuitive claim that, shackled by excessive regulation, credit unions actually offer their members less attractive pricing than do banks. Space doesn't permit a full discussion of his analysis, so I'll summarize some of the high points. For more details, go to *advice.cuna.org* and select "presentations and white papers."

The author falsely claims CUs offer members less attractive pricing than do banks.

First, citing me of all people, he says credit unions used to pay a 15-basis-point (bp) premium on money market deposit accounts over banks, but banks now offer a 250-bp advantage. What I actually wrote was, "Credit unions have gone from outpaying money market mutual funds by 15 bp to lagging by almost 2.5%." Either Duffy doesn't know the difference between a "mutual fund" and a "deposit account" or he was so anxious to come to his desired conclusion that he didn't apply sufficient diligence to his analysis.

Second, Duffy claims banks consistently have outpaid credit unions on overall consumer deposit rates for the past 10 years. He does this with a deceptively simple but flawed approach that ignores major differences in the credit union and bank deposit structures.

DataTrac, Milwaukee, collects data on deposit and loan rates from thousands of national institutions. During the past three and a half years, credit unions have outpaid banks by 26 bp to 50 bp on five different consumer savings and certificate accounts. And these spreads have been low by historical standards because of the compression of interest rates at very low levels. Credit unions' not-for-profit structure indeed provides members substantial benefits. A new Government Accountability Office report strongly supports this conclusion.

Duffy also claims credit unions now out-fee banks, to members' detriment and at the expense of growth. To do this he has to selectively pick his years of data, express fees as a percentage of income instead of assets, and fail to account for differences in how banks and credit unions report fee and interest income on call reports. Surveys consistently show credit unions charge fewer and lower fees than banks do.

So, let's ignore Duffy's incorrect conclusion: The credit union charter doesn't allow credit unions to compete effectively. And let's take what's right with his argument: Credit unions need significant regulatory relief to serve their members even better.

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